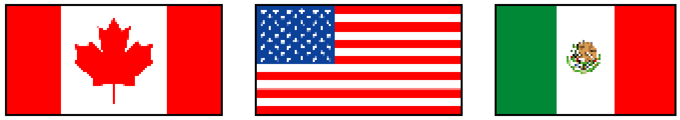
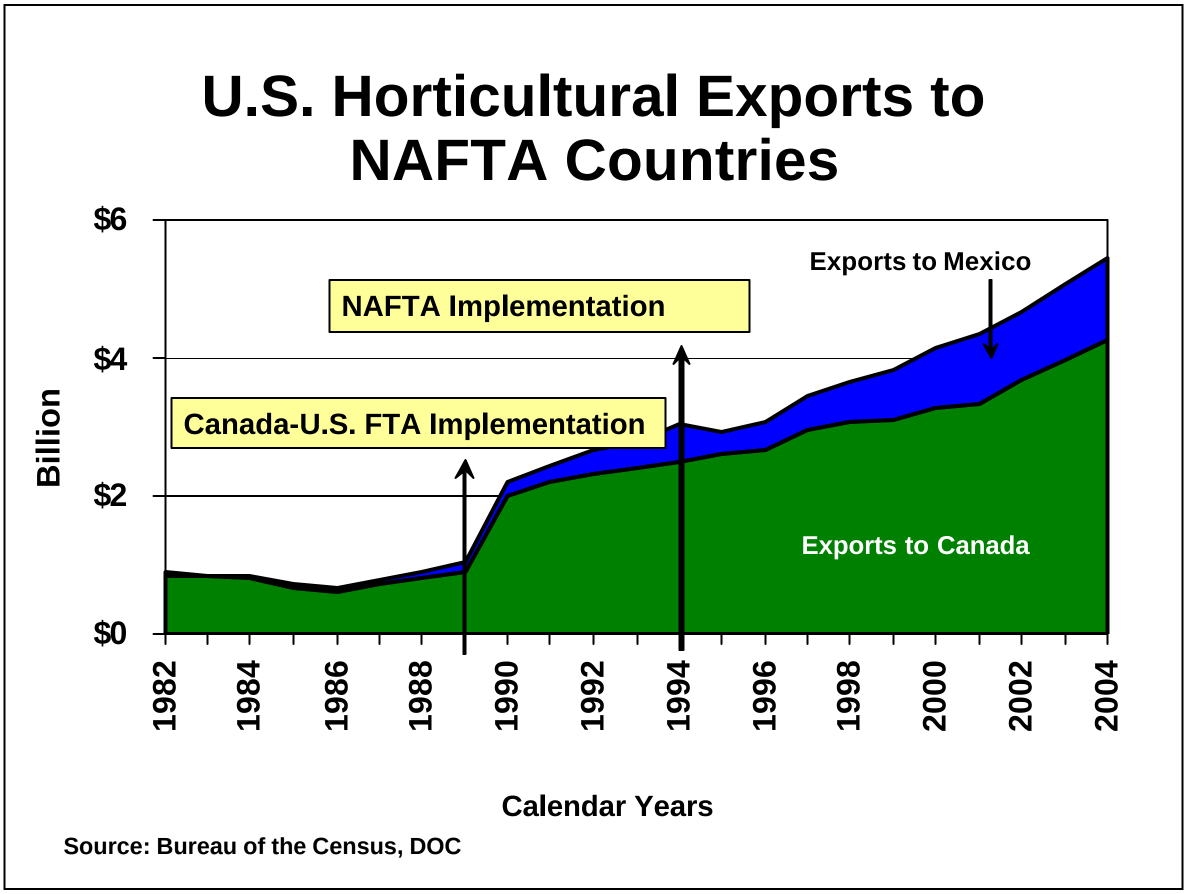
NAFTA Still Boosting U.S. Horticultural Exports

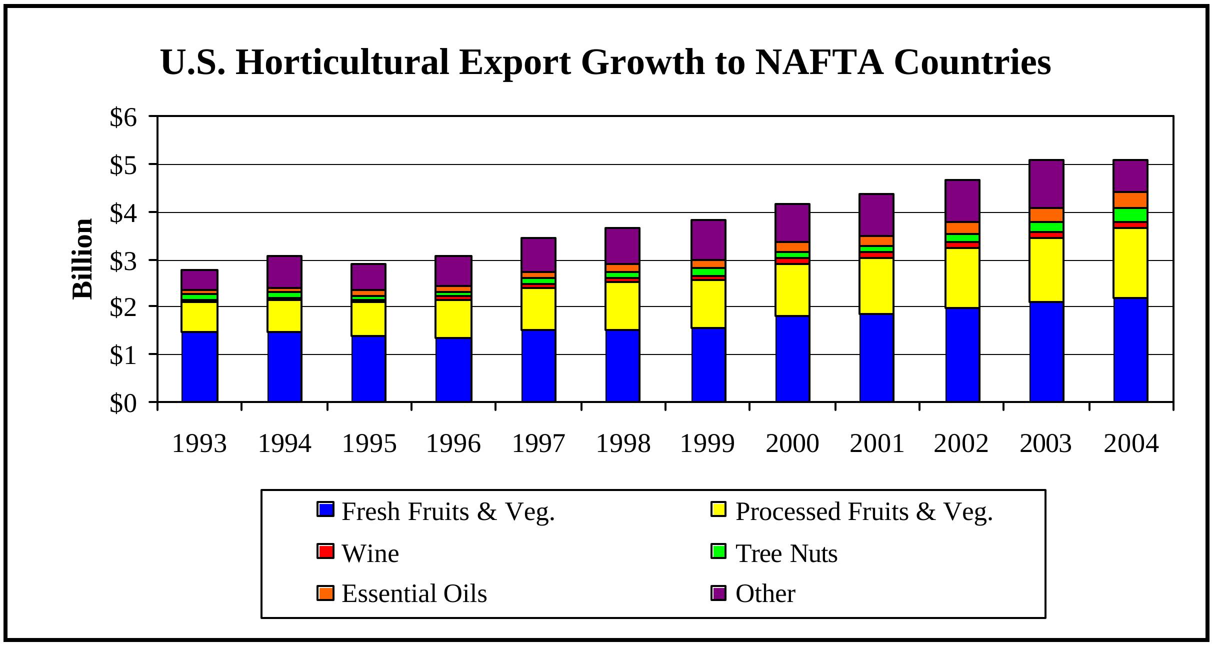




The North American Free Trade Agreement (NAFTA) took effect on January 1, 1994, and incorporated provisions of the 1989 U.S.-Canada Free Trade Agreement. As its guiding principle, NAFTA calls for the elimination of most trade barriers among the United States, Canada, and Mexico. The phasing out of trade restrictions has created new and expanded market opportunities for U.S. horticultural farmers and exporters. In 2004, U.S. exports of horticultural products to Canada totaled $4.3 billion, while the total to Mexico was $1.2 billion. These two countries are now the first- and fourth-largest markets, respectively, for U.S. horticultural exports (the EU and Japan are the second- and third-largest markets, respectively).

In 1993, U.S. horticultural exports to Canada and Mexico totaled $2.8 billion. By 1997, after 4 years of NAFTA, U.S. exports had jumped by more than 23 percent to $3.4 billion.

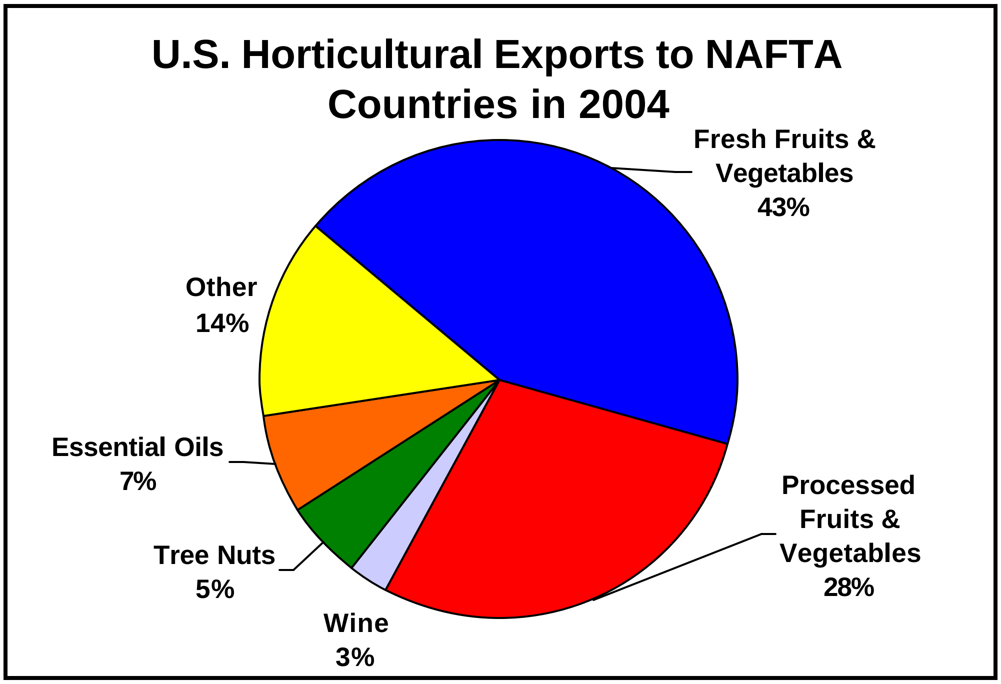
In 2004, exports continued their strong performance, reaching $5.5 billion, a 96-percent increase over the 1993 level.



Source: Bureau of the Census, DOC

Many of the products that have benefited most from NAFTA already had an established market presence before NAFTA was implemented. This was the case for U.S. exports of fresh and processed fruits and vegetables, tree nuts, and wine. Although markets previously existed, gains in these groups can be attributed to many NAFTA accomplishments, such as lower tariffs, the elimination of import licenses, and a more transparent business environment.

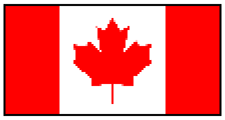
In 2004, fresh produce exports contributed approximately 40 percent of all U.S. horticultural sales to Canada and Mexico. Apples, table grapes, oranges, lettuce, tomatoes, and potatoes are some of the top earners. Nearly one-fifth of the U.S. pear crop goes to our two NAFTA partners, creating significant gains for Washington and Oregon, the leading pear producing and exporting states.



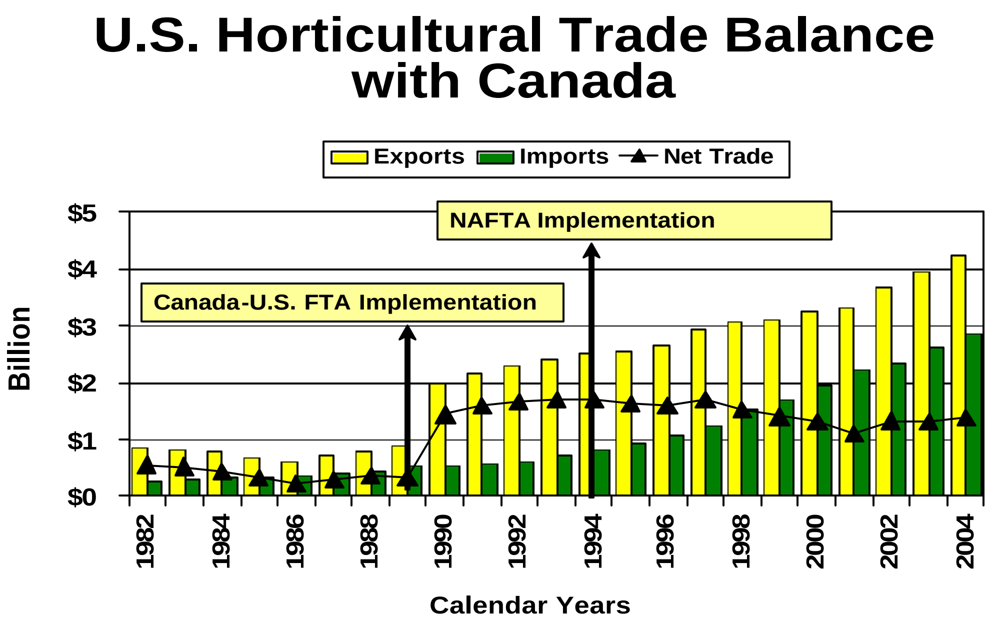
Source: Bureau of the Census, DOC

Under NAFTA, all agricultural tariffs are to be phased out over 5-, 10- or 15-year periods. Today, most agricultural trade within the NAFTA region is already free of tariff and quota barriers. Tariff elimination for U.S.-Canada trade concluded on January 1, 1998. The liberalization of U.S.-Mexico (and Canada-Mexico) agricultural trade has also advanced significantly. Numerous restrictions were eliminated immediately upon NAFTA's implementation, while others were phased out over periods of 5 or 10 years. A handful of agricultural commodities, however, will not enjoy tariff and quota elimination until 2008. Examples include Mexican exports to the United States of frozen concentrated orange juice, sugar, and peanuts and U.S. exports to Mexico of corn, dried beans, and nonfat dry milk.

The agreement, however, does provide special safeguards for horticultural products considered especially sensitive to import competition, such as particular fresh and processed fruits and vegetables. For example, the United States may apply "Snapback" (most-favored-nation) tariff rates to imports of fresh produce products from Canada if certain price and acreage conditions prevail. In addition to these safeguards, NAFTA includes tough rules of origin to ensure that its benefits accrue only to the producers and exporters of an exporting signatory country.



Canada's Market Is Growing Strong

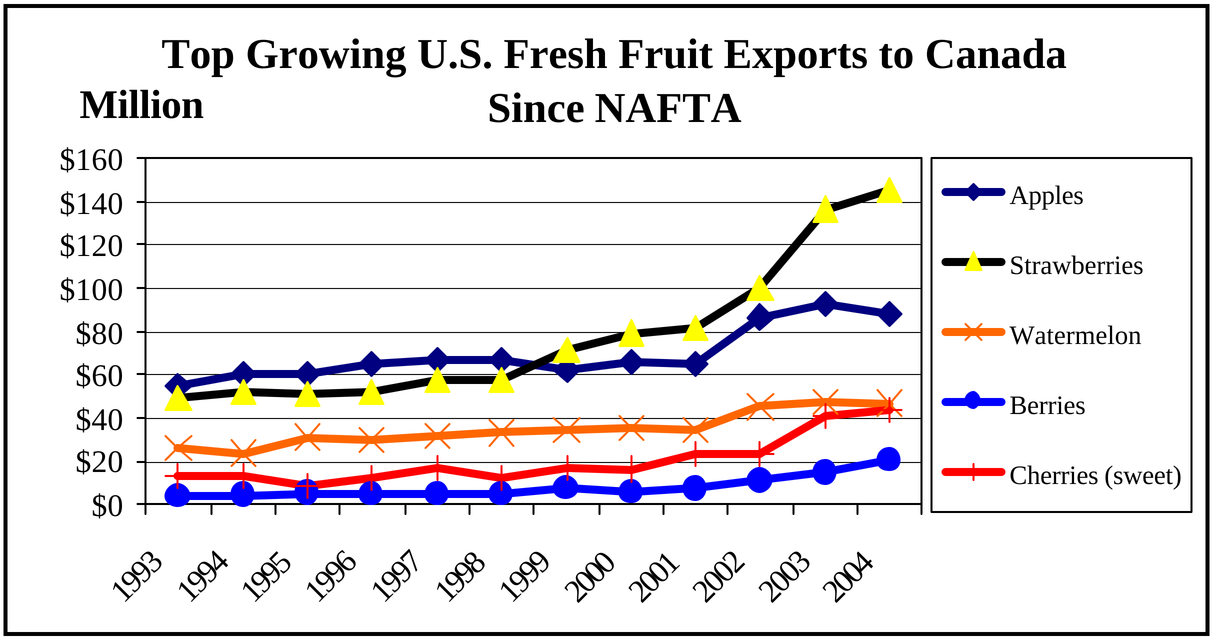


Source: Bureau of the Census, DOC

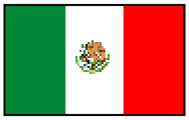
U.S. horticultural sales to Canada, the leading market for U.S. horticultural exports, have risen steadily since the U.S.-Canada Free Trade Agreement (CFTA) was implemented in 1989. The CFTA was later incorporated into the NAFTA agreement. U.S. sales to Canada exceeded $4 billion in 2004, compared with $2 billion in the 1992 pre-NAFTA period.

Almost half of all U.S. exports of fresh fruits and vegetables are sold to Canada. The United States supplies Canada with approximately 60 percent of its fresh-fruit imports (except for bananas) and about 80 percent of its fresh-vegetable imports (except potatoes). In 2004, strawberries ($144 million), table grapes ($149 million), oranges ($105 million), apples ($88 million), peaches and nectarines ($56 million), watermelon ($47 million), and sweet cherries ($43 million) were the leading fresh-fruit exports to Canada. Lettuce ($224 million), tomatoes ($128 million), and carrots ($85 million), were the top earners among fresh vegetables.

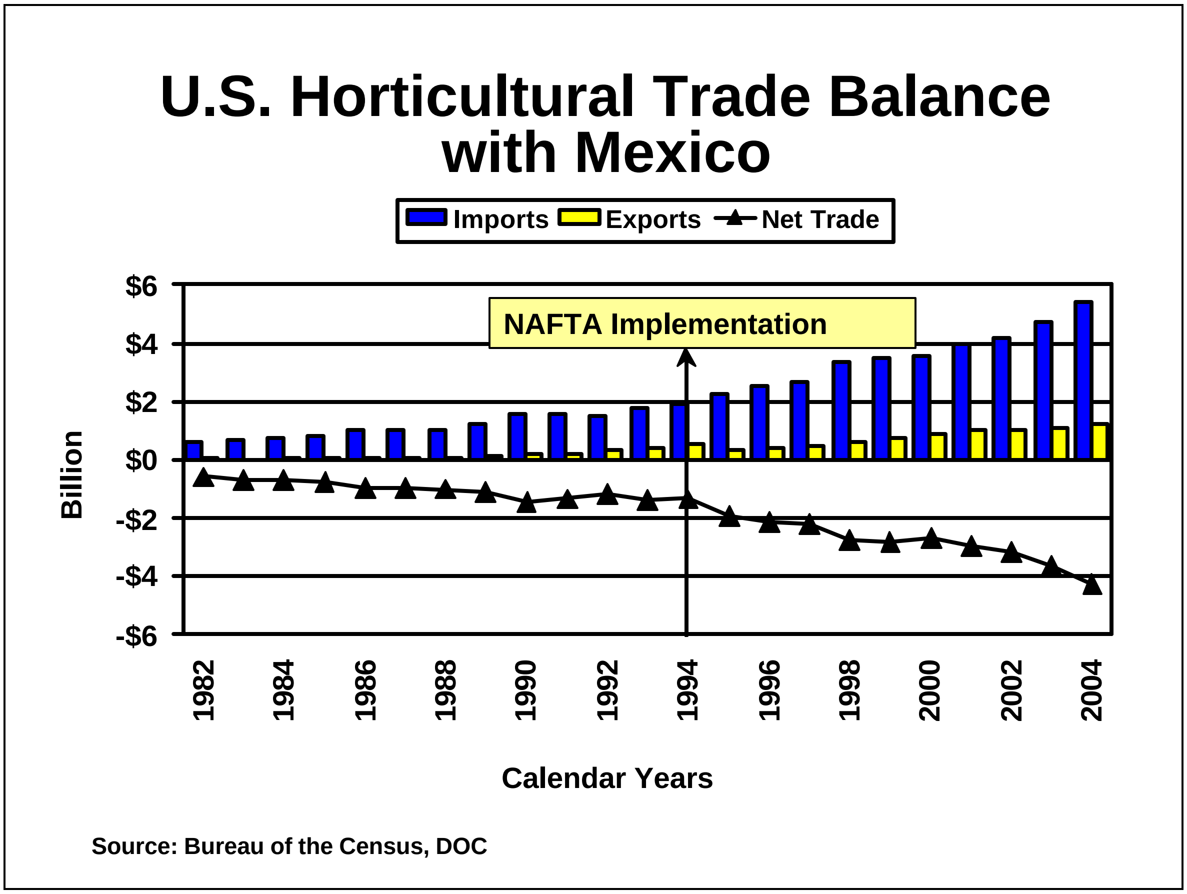
U.S. exports of fresh citrus fruits to Canada have increased steadily in recent years. In 2004, total U.S. citrus exports to Canada were valued at $165 million. U.S. orange sales reached $105 million in 2004, a 12-percent increase from last year. This achievement is particularly significant because the Canadian market is replete with other citrus items, including exotic options such as: Israeli sweeties, Moroccan and Spanish clementines, and ortaniques (orange-tangerine hybrids) imported from Jamaica.



Source: Bureau of the Census, DOC



Mexico's Imports on the Rebound



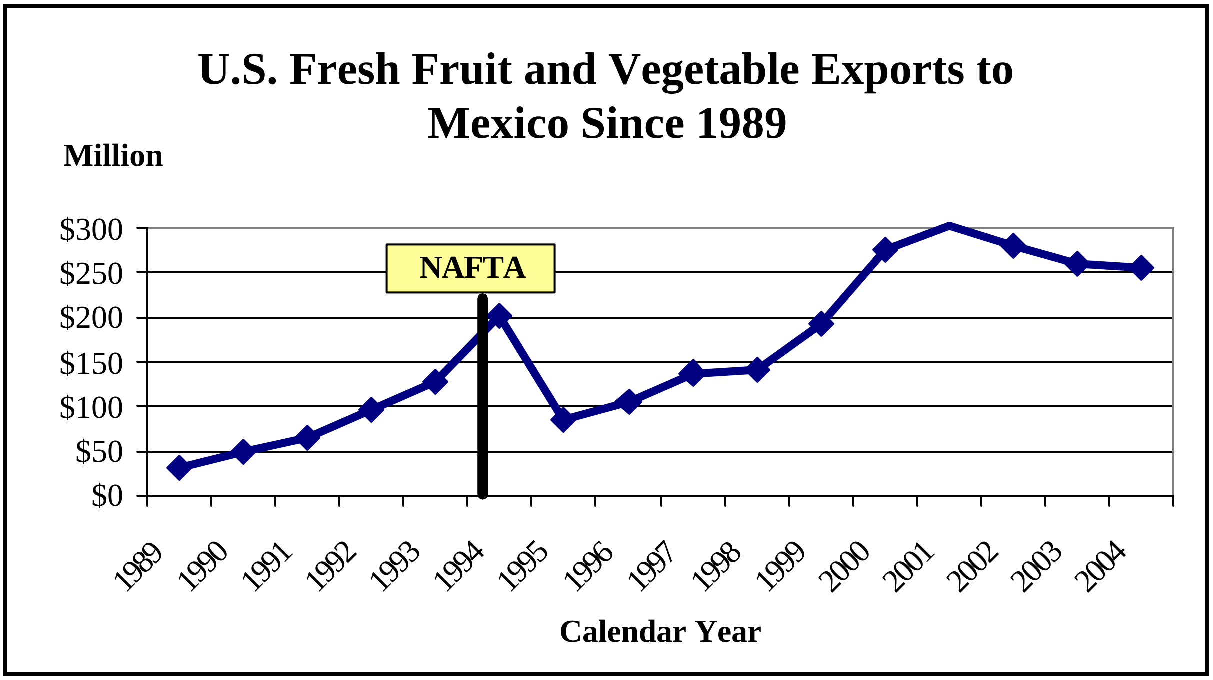
U.S. horticultural exports to Mexico posted impressive increases in the run-up to and the first year of NAFTA. Currently, the United States supplies Mexico with approximately 70 percent of its fresh fruit imports (except for bananas) and supplies over 80 percent of its fresh vegetable imports (except potatoes). But the first few years of the agreement were not without their ups and downs. The 1995 peso devaluation and ensuing recessions drastically cut Mexican consumers' purchasing power. Declines in U.S. horticultural exports followed.

However, U.S. exports bounced back quickly, registering strong gains in 1996 and picking up speed through 2004. Total U.S. horticultural exports to Mexico were $403 million in 1996 and grew to $1.2 billion in 2004, a 201-percent increase in exports.

Fresh fruits and vegetables, which account for about a third of all U.S. horticultural exports to Mexico, were valued at $97 million in 1992. Ten years later, in 2002, NAFTA had helped U.S. fresh fruit and vegetable exports to Mexico grow by an impressive 188 percent to reach $279 million. In 2004, apples ($57 million), pears ($45 million), and table grapes

($42 million) were the stars, accounting for over 56 percent of U.S. exports to Mexico in this category.

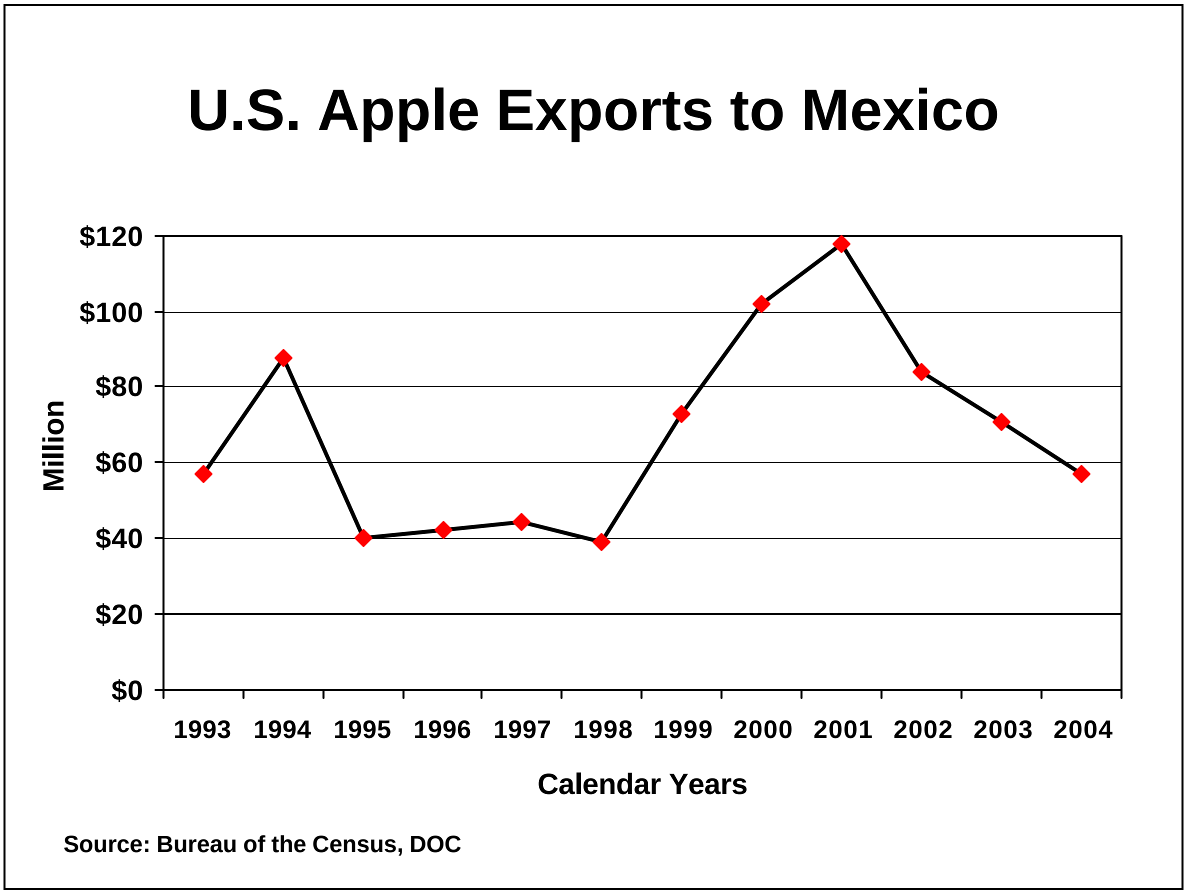
When the market first opened to U.S. table grapes in 1994, growers had high hopes that Mexico, with its close proximity, market potential, and declining tariffs, would become a major customer for California grapes, which make up over 90 percent of total U.S. production. By 1997, those hopes had become a reality. Table grape exports reached a record $22 million, up 6 percent from the previous record set in 1994 and more than double the 1996 total. In 2002, table grape exports reached another record of $42 million. However, U.S. grapes, like many other horticultural products, face strong competition for Mexico's market from domestic competition and other foreign producers like Chile. In 2003, exports only reached $36 million, but rebounded to $42 million in 2004.



Source: Bureau of the Census, DOC

Edible tree nuts have also seen great increases since NAFTA. Valued at $27 million in 1994, U.S. exports rose by 219 percent to reach $86 million in 2004.

Apples are the largest U.S. fresh produce export to Mexico. U.S. apple exports climbed steadily from 1991 through 1994, spurred by the removal of import licensing and implementation of a phytosanitary protocol. Along with many other products, apples were hard-hit by Mexico's economic crisis of the mid-1990s. Although exports quickly recovered after 1995, recent years have seen declines in exports due to the imposition of a 46.58 percent anti-dumping duty on U.S. apples in 2002. Calendar year exports in 2003 were 40 percent lower than the record high of $118 million in 2001. The decline continued in 2004 when apple exports dropped by 20 percent from the previous year to $57 million.



NAFTA's Opportunities Will Continue To Expand

NAFTA has already expanded market access for a broad range of U.S. horticultural products and it paves the way for further export gains. With the full implementation of NAFTA over the next few years, it is expected that exports of traditional products will continue to strengthen their market presence, while new and nontraditional products will also find improved market opportunities as the NAFTA countries continue to transition to their respective comparative advantages.

Edwin Lewis, Foreign Agricultural Service, Horticultural and Tropical Products Division.
Tel. (202) 720-1863; Fax (202)720-3799.